

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

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CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

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R 140910Z APR 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 8468

DEPARTMENT OF TREASURY WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 TOKYO 5510

PASS FEDERAL RESERVE, LABOR AND EXIMBANK

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF APRIL 8-14

1. SUMMARY: INDUSTRIAL PRODUCTION INCREASED 2.3 PERCENT
IN FEB WHILE PRODUCERS' SHIPMENTS ROSE BY RECORD 6.4
PERCENT, AS ECONOMY APPEARS TO MOVE AHEAD ON STRENGTH OF
RAPIDLY INCREASING DEMAND FOR INDUSTRIAL GOODS AND CON-
SUMER DURABLES. FEB MACHINERY ORDERS 20.8 PERCENT HIGHER
THAN PRIOR MONTH AND EXPORTS IN MAR WERE UP 9.1 PERCENT.
FASTER PACE OF ECONOMIC RECOVERY CONTINUES TO PUT UPWARD
PRESSURE ON WPI AND BOJ GOV CONCERNED ABOUT RESURGENCE
OF INFLATION. JAPANESE BANKS WILL PROVIDE YEN-DENOMINATED
SYNDICATED LOAN TO CENTRAL BANK OF PHILIPPINES, AND JAPAN
EXPORT-IMPORT BANK WILL STRESS BUYERS RATHER THAN TRADITIONAL
SUPPLIERS CREDITS.

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WM STRONG FEB GAINS IN PRODUCTION AND SHIPMENTS REVISED UPWARD. FIGURES NOW SHOW HEALTHY 2.3 PERCENT RISE IN SEASONALLY ADJUSTED INDEX OF MINING AND MANUFACTURING PRODUCTION (JEI 212) WAS LED BY SHARPLY INCREASED OUTPUT OF COAL AND OIL PRODUCTS GENERAL MACHINERY, AND STEEL. RECORD 6.4 PERCENT JUMP IN PRODUCERS' SHIPMENTS OF FINISHED GOODS (JEI 239) FROM PRIOR MONTH ON S.A. BASIS WAS AIDED BY WHOPPING 61 PERCENT INCREASE IN SHIP DELIVERIES. EVEN EXCLUDING SHIPS, HOWEVER, MINING AND MANUFACTURING PRODUCERS' SHIPMENTS ROSE 5.0 PERCENT, LARGEST MONTHLY INCREASE IN 15 YEARS. INVENTORY TO SHIPMENTS RATIO (JEI 253) FELL 7.1 PERCENT. DETAILS OF REVISED JAN PRODUCTION, SHIPMENTS AND INVENTORIES REPORTED SEPTEMBER.

PRODUCTION, SHIPMENTS, AND INVENTORY TO SHIPMENTS RATIO (INDEX, 1970-100, S.A.; PCT CH FROM PRIOR MONTH IN PAREN)

	MIN. AND MFG. PRODUCTION	PRODUCERS' SHIPMENTS	INVENTORY TO SHIPMENTS RATIO
DEC	112.7 (0.8)	118.0 (2.0)	139.2 (-1.3)
JAN	114.9 (2.0)	116.3 (-1.4)	140.9 (1.2)
FEB	117.5 (2.3)	123.8 (6.4)	130.9 (-7.1)

3. CURRENT PICKUP IN PACE OF JAPANESE RECOVERY APPEARS TO BE OF QUITE DIFFERENT CHARACTER THAN LAST SPRING'S BRIEF ECONOMIC REVIVAL WHEN VIEWED FROM STANDPOINT OF PRODUCTION AND SHIPMENTS BY SPECIAL PRODUCT CATEGORY. INITIAL PHASE OF RECOVERY DURING APRIL-JULY 1975 WAS BASED ON RAPID INCREASES IN PRODUCTION AND SHIPMENTS OF CONSUMER GOODS AND CONSTRUCTION MATERIALS, WHEREAS PRODUCTION AND SHIPMENTS OF INVESTMENT GOODS CONTINUED TO DECLINE THROUGHOUT THAT PERIOD. HOWEVER, RECENT INCREASES IN PRODUCTION AND SHIPMENTS INDICES REFLECT VERY RAPID INCREASES FOR CAPITAL GOODS AND CONSUMER DURABLES WITH LESSER RATES OF INCREASE FOR NON-DURABLE CONSUMER GOODS AND BUILDING MATERIALS. TABLE BELOW SHOWS PERCENT INCREASES AT SEASONALLY ADJUSTED COMPOUND ANNUAL RATES FOR PRODUCTION AND SHIPMENTS OF COMMODITIES BY TYPE OF PRODUCT. COMPARING TWO PERIODS OF RELATIVELY RAPID INCREASE IN ECONOMIC PACE (APRIL-JULY 1975 AND DEC 1975 - UNCLASSIFIED

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FEB 1976), CONTRAST IN MOVEMENTS OF CAPITAL GOODS PRODUCTION AND SHIPMENTS IS CLEAR. WHEREAS CAPITAL GOOD PRODUCTION DECLINED AT 5.8 PERCENT CUMULATIVE ANNUAL RATE DURING LAST SPRING'S INITIAL RECOVERY PHASE, NOW PRODUCTION SHIPMENTS ARE INCREASING AT PERCENTAGE RATE OF 56.4 PERCENT AND 95.3 PERCENT, RESPECTIVELY. FOR THOSE COMMODITIES WHICH RECOVERED LAST SPRING, PRODUCTION GAINS OUTPACED SHIPMENTS BUT NOW SHIPMENTS ARE GENERALLY RISING

FASTER THAN PRODUCTION.

COMPOUND ANNUAL RATES OF INCREASE, S.A.
(PERCENT)

	APRIL-JUL 75		DEC 75-JAN 76	
	PRODUCTION SHIPMENTS		PRODUCTION SHIPMENTS	
MINING AND MFG.	25.4	18.3	22.0	31.1
CAPITAL GOODS	-5.8	-2.2	56.4	95.3
CONSTR. MATERIALS	24.8	7.1	12.1	18.6
CONS. DURABLES	58.9	2.9	31.2	72.9
CONS. NON-DURABLES	29.6	14.6	4.2	-10.3

IT IS TOO EARLY TO TELL IF CURRENT RAPID PACE OF RECOVERY WILL BE ABLE TO DEVELOP INTO FULL-SCALE BOOM. ONE QUESTION WHICH REMAINS TO BE ANSWERED IS DEGREE TO WHICH CURRENT SPURT IS THE RESULT OF FOREIGN ORDERS RATHER THAN PICKUP IN DOMESTIC DEMAND. ANOTHER QUESTION IS WHETHER CURRENT SPEED-UP WILL SPREAD WIDELY THROUGH ALL SECTORS OF THE ECONOMY. DESPITE RECENT PRODUCTION INCREASES, SUCH KEY INDUSTRIES AS STEEL, METAL MANUFACTURES AND CHEMICALS ARE STILL OPERATING AT RATES WELL BELOW NORMAL. NEVERTHELESS, CURRENT PICKUP IN PACE OF ECONOMIC ACTIVITY IS MUCH STRONGER THAN LAST YEAR, BUT IN MONTHS AHEAD THE ADVANCE WILL HAVE TO SLOW FROM PRESENT VERY HIGH ANNUAL RATES.

4. NEW MACHINERY ORDERS IN FEB REGISTERED STRONG INCREASE ON S.A. BASIS FOR THIRD ONTH IN ROW. SHARP 20.8 PERCENT JUMP IN NEW PRIVATE MACHINERY ORDERS, EXCLUDING SHIPS (JEI 337) CENTERED ON EQUIPMENT FOR EXPORTS AND CONSUMER GOODS INDUSTRIES. ACCORDING TO EPA SPOKESMAN, FEB RISE WAS LIMITED TO "SMALL TYPES" OF MACHINERY AND INDICATED THAT MAJOR INCREASE IN INVESTMENT FOR PLANT AND EQUIPMENT WAS NOT YET UNDER WAY. FEB INCREASE IN NEW MACHINERY ORDERS UNCLASSIFIED

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PLACED BY MANUFACTURING FIRMS WAS 23.8 PERCENT. ORDERS PLACED BY NON-MANUFACTURING FIRMS DIPPED 0.2 PER ENT AFTER RECORDING STRONG RISE IN PREVIOUS MONTH. SINCE HITTING BOTTOM AT YEN178.3 BIL IN NOV, PRIVATE MACHINERY ORDERS, EXCLUDING SHIPS, HAVE INCREASED 51.7 PERCENT. FEB ORDERS WERE 20 PERCENT ABOVE THE AVERAGE FOR 1975 AND ONLY 10 PERCENT BELOW AVERAGE FOR BOOM YEAR OF 1973.

	(BIL YEN)	PCT CH FROM PRIOR MONTH
DEC	193.5	8.5
JAN	223.9	15.7
FEB	270.4	20.8

5. CUSTOMS TRADE FIGURES FOR MAR RELEASED THIS AFTERNOON SHOW EXPORTS CONTINUING TO RISE AND IMPORTS CONTINUING TO DECLINE ON SEASONALLY ADJUSTED BASIS. CUSTOMS EXPORTS

(FOB, S.A.) AT \$5,726 MIL IN MAR, WERE 9.1 PERCENT HIGHER THAN FEB. ONE-QUARTER OF MAR GAIN (UNADJUSTED) REPRESENTS INCREASED SHIP EXPORTS, ESPECIALLY TO LIBERIA. EXPORT RISE TO U.S. CONTINUED AND IS 49 PERCENT ABOVE MAR 75. EXPORT GROWTH TO KOREA AND COUNTRIES IN SOUTHEAST ASIA WAS ALSO MAINTAINED. CUSTOMS IMPORTS (CIF, S.A.) AT \$4,940 MIL IN MAR WERE 1.4 PERCENT LESS THAN IN FEB, HODGSON

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R 140910Z APR 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 8469

DEPARTMENT OF TREASURY WASHDC

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THEREBY RECORDING THIRD SUCCESSIVE MONTHLY DECLINE.

FULL DETAILS ON CUSTOMS TRADE WILL BE REPORTED IN SEPTEL.

SEASONALLY ADJUSTED CUSTOMS TRADE IN MIL \$

(PCT CH FROM PRIOR MONTH IN PAREN)

	EXPORTS	IMPORTS
JAN	5,100.4 (5.8)	5,147.5 (MIN 1.0)
FEB	5,250.2 (2.9)	5,008.1 (MIN 2.7)
MAR	5,726.1 (9.1)	4,939.7 (MIN 1.4)

6. WHOLESALE PRICE INDEX ROSE 0.6 PERCENT IN MAR, MARKING

NINTH CONSECUTIVE MONTHLY INCREASE. DURING LAST SIX MONTHS CUMULATIVE ANNUAL RATE OF INCREASE IN WPI (JEI 471) WAS 6.9 PERCENT. BANK OF JAPAN GOV MORINAGA TOOK NOTE OF THIS CONTINUING RISE IN HIS SPEECH AT QUARTERLY MEETING OF BOJ BRANCH CHIEFS. CALLING RECENT ADVANCE IN WHOLESALE PRICES /EXCESSIVE," GOVERNOR SAID THAT WHILE BANK WOULD MAINTAIN CURRENT EASY MONEY POLICY CARE WOULD BE TAKEN TO PREVENT EXCESSIVE EXPANSION OF MONEY SUPPLY FROM REKINDLING

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INFLATION.

	INDEX (NSA, 1970-100)	PCT CH FROM PRIOR MONTH
JAN	160.5	0.8
FEB	161.6	0.7
MAR	162.6	0.6

7. JAPAN EXPORT-IMPORT BANK IS REPORTEDLY SHIFTING ITS POLICY OF FINACING EXPORTS OF INDUSTRIAL PLANT THROUGH BUYERS' CREDITS RATHER THA SUPPLIERS' CREDITS IF A LOAN EXCEEDS \$100 MIL. INSTEAD OF TRADITIONAL PRACTICE OF FINANCING JAPANESE SUPPLIERS (EPORTERS) JAPAN EXIM NOW EXTENDING CREDITS TO FOREIGN BUYERS (IMPORTERS), WHO PAY JAPANESE MANUFACTURERS FOREXPORTS IN CASH. THE FIRST BUYER'S CREDIT THROUGH JAPAN EXIMBK WAS EXTENDED FOR AMMONIUM PLANT EXPORTS TO U.S.S.R. LAST SUMMER. THERE ARE SEVERAL BUSINESS DEALS UNDER NEGOTIATION BETWEEN FREIGN BUYERS AND JAPANESE MANUFACTURERS -- SUCH AS GAS RECYLING PLANT EXPORTS TO ALGERIA, CHEMICAL FERTILIZER PLANT SHIPMENT TO POLAND, AND IRON PLANT EXPORTS BOTH TO MEXICO AND TO SPAIN. JAPAN EXIMBK REPORTEDLY SECURED CONSENT TO PROVIDE BUYERS' CREDITS (AMOUNT TO \$200 MIL AND MORE) FOR ALL THESE PROJECTS. IT IS ARGUED THAT BUYERS' CREDIT FINANCING WILL FREE JAPANESE EXPORTERS FROM FOREX RSKS SINCE EXPORT CONTRACTS CAN BE DENOMINATED IN JAPANESE YE INSTEAD OF US DOLLARS AS HAS GENERALLY BEEN THE CASE ON INDUSTRIAL PLANT EXPORTS. GOJ HAS BEEN ENCOURAGING YEN-DENOMINATED EXPORT CONTRACTS, WHICH ARE NOW ESTIMATED TO REPRESENT 20 PERCENT OF THE TOTAL OF JAPAN'S EXPORTS. BUYERS' CREDIT FINANCING WILLALSO HELP JAPAESE COMMERCIAL BANKS WHO HAVE BEEN TRYING TO RESTRAIN GROWTH IN CREDITS EXTENDED TO THEIR MAJOR JAPANES FIRMS. MOF HAS SOUGHT TO IMPOSE A 20 PECENT CAPITAL-LOAN LIMITATION AND MOST OF THE MAJOR BANKS ARE REQUESTED TO LIQUIDATE LOANS IN EXCESS OF THE LIMIT BY MR 1980. COMMERCIAL BANK FINANCING OF EXPORTS WILL EXPAND SINCE JAPAN EXIMBK HAS REUCED ITS PARTICIPATION TO 70 PERCENT FROM 80 PERCENT F THE TOTAL FINANCING IN THE CURRENT FISCAL YEAR 1976, BEGINNING APR 1. COMMENT: JAPAN EXIMBK OFFICIAL (MATSUMOTO) SAID THERE HAS BEEN NO MAJOR CHANGE IN BANK'S POLICY, AND EMBASSY BELIEVES ARTICLE MAY REFER

PRIMARILY TO CREDITS EXTENDED BY JPAN EXIM TO FOREIGN
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GOVTS AND THEIR CORPORATINS.

8. ANOTHER STEP IN "INTERNATIONALIZING" THE JAPANESE YEN:
SEVEN JAPANESE CITY BANKS HEADED BY BANK OF TOKYO AND FUJI
BANK WILL PROVIDE A SYNDICATED LOAN TO CENTRAL BANK OF
PHILIPPINES. MOF REPORTEDLY APPROVED IT ON CONDITION
THAT THE LOAN BE DENOMINATED IN JAPANESE YEN. MOF HAD IN
PRINCIPLE PROHIBITED JAPANESE BANKS FROM PROVIDING LONG-TERM
OVERSEAS SYNDICATED LOANS BECAUSE OF HEAVY DEPENDENCE OF
JAPANESE BANKS ON SHORT-TERM BORROWING FROM EURODOLLAR
MARKET. THE SYNDICATED LOAN TO PHILIPPINE GOVT SCHEDULED
IN MAY THIS YEAR WILL AMOUNT TO 15 BIL YEN (\$50 MIL) AND
BEAR ANNUAL INTEREST RATE SIMILAR TO CURRENT LONG-TERM
PRIME RATE IN JAPAN (9.2 PERCENT) WITH REPAYMENT PERIOD OF
FIVE YEARS, ACCORDING TO PRESS REPORT. MOF AND BOJ HAVE
ENERGETICALLY IMPLEMENTED SEVERAL PROGRAMS TO PROMOTE
"INTERNATIONALIZATION OF JAPANESE YEN." IN MID-JUNE
LAST YEAR BOJ ENCOURAGED CALL AND BILL BROKERS TO DEVELOP
STANDARDS FOR TRANSACTIONS IN YEN-DENOMINATED FOREIGN
TRADE (ACCEPTANCE) BILLS AND PROMISED THEM ACTIVE
PARTICIPATION IN BOJ IN MARKET (SEE 75 TOKYO A-340).
MOF HAS ALREADY ANNOUNCED ITS INTENT TO EASE
RESTRICTION IMPOSED ON YEN-DENOMINATED BOND ISSUES IN
JAPAN BY FOREIGN GOVTS. GOJ IS NOW WILLING TO PERMIT
FOREIGN GOVTS TO HOLD ASSETS DENOMINATED IN YEN AND SINCE
LAST FALL GOJ BONDS HAVE BEEN SOLD BY BOJ TO FOREIGN GOVTS,
MOST OF WHICH FORMERLY BELONGED TO STERLING POUND AREA, SUCH
AS SINGAPORE, MALAYSIA, SAUDI ARABIA, AND ALGERIA,
ACCORDING TO REPORTS.
HODGSON

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